



**BUDGET REVIEW COMMISSION
APPROVED MINUTES**

THURSDAY, APRIL 22, 2010

**CITY HALL KIVA FORUM
3939 N. DRINKWATER BLVD.
SCOTTSDALE, AZ 85251**

PRESENT:

Louis Schmitt, Chair
Scott Miller, Vice Chair
Eric Borowsky, Commissioner
Martha Ecton, Commissioner
Michael Foster, Commissioner
Donna Reagan, Commissioner

STAFF:

David Richert, Acting City Manager
David Smith, Interim City Treasurer
Bruce Washburn, City Attorney
Alan Rodbell, Police Chief
Dan Worth, Public Works Executive Director
Kroy Ekblaw, Strategic Projects/Preserve Director
Dave Meinhart, Transportation Director
Brent Stockwell, Senior Advisor
Judy McIlroy, Budget Manager
Lee Guillory, Finance Manager

CALL TO ORDER / ROLL CALL

Chairman Schmitt called the meeting of the Budget Review Commission to order at 5:04 p.m., with all members present.

1. Approval of Minutes – April 15, 2010

COMMISSIONER ECTON MOVED TO APPROVE THE APRIL 15, 2010 BUDGET REVIEW COMMISSION MINUTES AS AMENDED. SECONDED BY COMMISSIONER BERLESE, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF SEVEN (7) TO ZERO (0).

2. Public Comment

Ms. Margaret Dunn, President of Ollie the Trolley, noted that the comprehensive surveys continue to come in with trends holding steady. She expressed dismay at the sweeping cuts being proposed to the already depleted transportation budget, primarily through a \$1.6 million

cut from the General Fund, following a year when huge cuts were withstood by the department. Budget cuts to the transportation department will affect every citizen in Scottsdale because everyone uses the roadways and the transit system. She asked that the Commission consider recommending a reallocation of funds from the General Fund. Transportation and transit need time to recover from the loss of lottery funding and to devise ways for the trolley system and the transit system to generate revenue.

3. Presentation, discussion and approval of March 2010 Financial Report

Mr. David Smith presented the March 2010 Financial Report, noting that it has not yet been presented to the Council. He gave a PowerPoint presentation outlining the details of the report.

The fiscal year-to-date General Funds results showed that both sources and uses for that period of time were \$9.6 million ahead of budget, with \$1.5 million favorable on revenue and \$8.1 million favorable on uses. The 1% sales tax fell slightly below budget but remained close to last year's numbers. The period of March 31 is approximately \$2.2 million ahead of projections, which is \$10 million below last year.

With regard to fiscal year-to-date General Fund operating uses, the savings have been primarily in personnel services and contractual services with a total of \$8 million. End of the year projections are positive, with better than expected receipts and expenditures.

The bed tax is expected to be approximately \$2 million below budget. February performance results in hotels were favorable, which is an indication that April's results will be favorable. The direct cost allocation is unfavorable as a result of the earlier decision to reduce the enterprise charge by \$2.6 million.

Contractual commodities are favorable year-to-date by \$4.4 million, and with the net of the IOU applied are expected to show a favorable variance of \$1.4 by the end of the year. The ARRA stimulus money is showing up as an unfavorable variance primarily because the money will carry over to next year's budget.

In response to a question by Vice Chair Miller, Mr. Smith explained that notification is received each year from the Arizona State Retirement System advising the City what the following years contribution will be. The most recent amount is a half of a percent, which results in just under \$400,000 increased impact. Increases are quantified through an actuarial study on the Arizona State Retirement System. Choosing to pull out of the Arizona State Retirement System would be both a financial and a legal decision.

4. Staff presentation and discussion of the City's Proposed Fiscal Year 2010/11 Operating Budget, including but not limited to the following division budgets

A. City Treasurer – Finance and Accounting

Mr. David Smith, Interim City Treasurer, explained that when the department was created less than a year ago, a portion of the staff from tax audit and purchasing were relocated to the City Manager's administrative services division. He reviewed the responsibilities of the various departments including accounting, budget, and the finance, noting the organization will have 94.5 FTEs for the next fiscal year.

The department currently has 92.5 FTEs and is proposing the addition of two individuals. The compensation and benefits of the former director of financial services are proposed to be reassigned to three additional workers. One worker will be assigned to the general accounting group as a financial strategist. The second individual will be in the budgeting area.

Expenditures are anticipated to be almost \$200,000 in personnel services and approximately \$400,000 less in contractual services, due in part to charge backs from other departments.

In response to a question by Commissioner Berlese, Mr. Richert explained that there is not a hiring freeze; however, he is personally reviewing each position that is vacated together with the HR director and the division head, to determine whether the position should be filled or if duties can be reallocated.

Commissioner Berlese expressed concern that the three positions replacing one position would result in FTEs that would remain a burden to the department in perpetuity. Mr. Smith noted that his decision to add positions was subjective to the adequacy of the talent currently in the financial department and the workload. The salary of the position being surrendered is \$152,000 with benefits of \$36,000 and a car allowance of \$5,000 for a total of \$194,000. The three proposed added positions would total \$191,000 resulting in a savings of \$3,000 for the department. One of the added positions will be an administrative assistant, which is a position currently being covered through rotation of accounting staff.

Chairman Schmitt commended Mr. Smith and Mr. Richert for their collaborative efforts.

5. Discussion and possible action on recommendations to the City Council regarding the City's operating budget; capital budget; review forecast, taxes and fees; and financial policies, including but not limited to the following issues.

Chairman Schmitt explained that he and Mr. Stockwell put together a checklist to aid the Commission in reviewing the key budget issues, and that checklist was included in the agenda packet.

A. Operating Budget.

Commissioner Ecton said that the transportation options could not be considered as all or nothing. She suggested that the general fund transfer be reduced to eliminate some of the deficit and look for other ways such as passes for the neighborhood trolley and the downtown trolley as well as selling passes to the hotels for guests.

Commissioner Berlese felt the proposal was premature and asked for a review of the outstanding issues.

Mr. Dave Meinhart highlighted points in the Draft Transportation FY11 Operating Budget. He reviewed challenges that should be considered when discussing fares for trolley rides, including benefits and losses for the City, potential loss of ridership, and the effects on senior neighborhoods. The Transportation Commission is working on various options for reaching reduction targets. The primary question for the Budget Review Commission is whether they would have concern with changing the split on the local sales tax. Focusing on a \$1.4 million reduction will help clarify the issues faced by the Transportation Commission.

Vice-Chairman Miller favored the recommendation to go to a 60/40 split on the sales tax, as well as the payment reduction from 84% to 80% and using the \$800,000 savings from the cross-cut canal to supplement the payment program. He recommended that the Transportation Commission work within parameters to schedule reductions.

Chairman Schmitt requested that the Transportation Department report back to the Budget Review Commission with their conclusions, within six months.

Commissioner Berlese questioned what the shortfall would be if all recommendations were implemented. Mr. Meinhart explained that without dramatically changing access there would be a \$1.4 million reduction, which is comparable to the \$1.3 million State lottery funding.

Commissioner Berlese supported the recommendation but suggested that the CIP contingency fund be used as a stop-gap measure for a short-term fix. He asked for Ms. Dunn's opinion on a .50 cent fare for trolley riders. Ms. Dunn reiterated that because the service is currently free there will likely be a loss of ridership. She suggested that a day pass or a month pass would be a more feasible approach. Electronic fare boxes and kiosks could be installed throughout the downtown as well as participation with merchants who could distribute passes to their customers. An alternate solution would be to consider advertizing opportunities that could generate revenue that would negate the need to charge a fare and would be more economical for the City.

Mr. William Howard, Transportation Commission member, spoke regarding the implementation of trolley fares. He agreed that there would likely be a reduction in ridership and a cost to the City. He warned against the creation a false economy whereby passengers are being charged but the net cost to the City is increased. It is appropriate for the Transportation Commission and the Transportation Department to research the possibilities and develop a thought out position.

As a result of the loss of State lottery funding, members of the Transportation Commission have been working with Mr. Meinhart to determine the highest and best use of resources to maintain the critical transportation infrastructure of the City, which may result in changes to recommendations made as recently as February. A six-month timeframe should provide adequate time to consider both the trolley and what the overall impact on the system might be, realizing that the issue is fluid and in six months a different set of variables could exist.

Commissioner Foster commented that he was supportive of the proposal, noting that it is difficult to support objectively with no data.

The Commission unanimously supported changes to the Transportation Fund that were provided by staff, with the provision that in six months the Budget Review Commission would revisit the issue based on the input of the Transportation Commission.

- a. Recommend limiting reductions to transit to approximately \$1.4 million, comparable to the Lottery Fund sweep by the State of Arizona, with reductions to be identified though public hearing process by Transportation Commission, and changing the split of .20 dedicated sales tax to 60% operating, 40% capital to make additional funding (up to \$1.6 M) available for transit services with the caveat that the increase in operations funding will not be used to cover personnel expenses.**

- b. Recommend reducing required budget for street maintenance by up to \$2.9 M while maintaining a Pavement Condition Index of ≥ 80 . Unspent ARRA (federal stimulus) funding or increases in HURF tax collections could partially offset this reduction.**

The Commission unanimously supported eliminating 2 FTEs and holding vacant 3.5 FTEs and making further reductions to employee-related costs, further reducing budgets for contracted services, printing, mailing, supplies and training for a total of \$1.6 M.

The Commission unanimously supported implementing further water conservation measures in the amount of \$.7 M to help offset phased elimination of the in-lieu tax.

In response to a question by Commissioner Berlese, Mr. Smith explained that the Health Care Trust Fund reserve monies resulted from favorable performance and claims being less than contributed premiums. The proposal is to return some of the accumulated surplus money to both the City and the employees, maintaining the contribution ratio. Employees will be refunded over two pay periods.

The Commission unanimously supported the one-time strategy of transferring excess Health Care Trust Fund reserves back to General Fund \$3.2 M (\$.8 M to other funds) and employees.

The Commission unanimously supported the one-time strategy of applying beginning unreserved fund balance (prior year surpluses) as a source in the amount of \$4.2 M.

Commissioner Berlese inquired about the steps being taken in anticipation of the further reductions in State shared revenues in 2011/12. Mr. Richert advised that the \$2.5 million is backed up by historical data. If the protection fund becomes an issue in the long term, the \$50 million in taxes and receipts could be removed. The intent is to provide protection for the budget.

The Commission unanimously supported the one-time strategy of maintaining the contingency reserve at a level consistent with the historic average uses of \$2.5 M.

Commissioner Reagan asked if it would be possible to negotiate with the school district on the percentage contribution for School Resource Officers and avoid making such a drastic change right away. Chief Rodbell noted that he is attempting to get in touch with Dr. Catalani to discuss possible flexibility in the numbers. He is currently unsure of the impact that fully funding their portion of the school resource program would have on the SUSD. The school district has publically said that if they do not get funding for the program they would cut the four middle school officers and try to maintain the high school program.

In response to questions by Commissioner Ecton, Chief Rodbell said that there are two resource officers funded by a grant in Cave Creek; however, the school is expected to close. The Grayhawk, Paradise Valley school system is under the jurisdiction of Phoenix.

Vice-Chairman Miller commented that he has children that attend Desert Mountain High School and supports the school resource officer program.

The Commission unanimously recommended working with the Scottsdale Unified School District to change the split of funding of School Resource Officers from 77%/23% to no less than 50%/50% SUSD/City resulting in a possible decrease in General Fund revenues of \$187,764.

Chairman Schmitt commented that the debt structure has found that the City is in a situation where some of the certificates of participation might be better served by being put in a longer-term instrument. Mr. Smith noted that only two pieces of debt are callable and could be refinanced at the present time. If not refinanced, the only source of funding to pay off the debt is to take General Fund monies. A better way to finance the debt would be as a property tax item, which is why the item has been proposed as a Bond 2010 project.

Commissioner Berlese suggested that the Public Safety portion of the sales tax is potentially a viable source of funding. Mr. Smith explained that the Public Safety portion has currently been over spent by the identified programs because the .2 % sales tax receipts have gone down. Chief Rodbell confirmed that the sales tax could be used for anything to support Public Safety, if the funds were not already spoken for with recurring costs.

The Commission unanimously recommended including the Public Safety Headquarters and Public Safety Radio Certificate of Participation financed projects in Bond 2010 to provide a long-term source for these projects other than General Funds.

Mr. Washburn explained that the 1994 .2% tax is for land purchases only. The 2004 tax is for land purchases and improvements, but not for operations.

In response to a question by Commissioner Borowsky, Mr. Ekblaw noted that approximately \$27 million in revenue was expected and there was \$22 million in debt service specific to that. In the past year, 400 acres were acquired for \$3.3 million plus the matching funds from the State parks. The debt service and the incoming revenues vary from year to year. The forecast for yearend 2009/10 is \$12,700,000.

Commissioner Borowsky felt that the issue of having \$12,700,000 that cannot be used for services and salaries should be addressed by City Council. Mr. Richert opined that the issue is how to move forward in realizing ways to affect the short term and still have the Preserve with an addition of funding for operations.

Chairman Schmitt agreed that the subject was worth discussing but that it is important to remember the issue is the purview of the McDowell Sonoran Preserve Commission and the Parks and Recreation Commission. He suggested that Commissioner Borowsky meet with the MSPC to discuss the issue. Mr. Ekblaw recalled that one priority of the strategic acquisition plan submitted to City Council by the McDowell Sonoran Preserve Commission identified the future funding needs and identified alternative approaches as one of the priorities for the MSPC to look at. The process has begun but they are not yet prepared to make presentations. He will suggest that the MSPC include the issue of operational and maintenance costs as well as alternative funding sources as part of their discussion.

Ms. McIlroy recalled that to help balance the FY 2008/09 deficit, an assessment was done of all funds during which a number of costs were identified that could be reallocated to other restricted funds. Debt issuances could charge the enterprise funds if the debt issuances were related to the enterprise funds. Additional costs could be charged to the enterprise funds. Possibilities will be included in the discussion of the upcoming fiscal year.

Vice-Chairman Miller agreed that the Preserve tax money should be used to maintain the Preserve. It is the job of the Preserve Commission to determine the solution. He recommended that Council put the question to the voters. He suggested that if the Desert Discovery Center is built, that the operating costs come from Preserve Funds.

Commissioner Ecton clarified that one primary issue to consider is that infrastructure was put in based on the decision to purchase the Preserve Land and the 100-year water supply is based on the fact that the Preserve land would never be developed.

Commissioner Borowsky argued that infrastructure and water are issues that would be addressed as needed for development. He queried when the next bond issuance is planned. Mr. Ekblaw said that direction from City Council was to proceed with the acquisition of State land this coming year. There is a 2000-acre parcel expected to go for auction in the fall with a targeted range between \$30 million and \$70 million based on land value and matching funds. Commissioner Borowsky said that it is the job of the Budget Review Commission to advise Council to look at reallocating funds to address the current financial emergency.

Commissioner Foster noted that by the time the issue could be put to a citizen vote the crisis could have passed.

Mr. Richert suggested that the recommendation should be part of the 2011/12 list of issues to go forward to Council. He proposed language.

Ms. Guillory explained the two types of bonds, noting that revenue bonds do have a debt requirement. General obligation bonds do not have a debt requirement and have the ability to raise property taxes if needed. General obligation bonds are issued based on a stream of Preserve taxes and would be sufficient to cover any debt being issued.

Commissioner Berlese agreed that Commissioner Ecton was correct in her comments about the 100-year assured water supply, adding that the Pima Water Campus does not take development of Preserve Lands into account. However, that doesn't mean the Preserve could not be developed.

The Commission In the majority (Martha Ecton dissenting) recommended asking the Council to refer to the voters the question of allowing a portion of the Preserve taxes to be used to fund operations and maintenance of the McDowell Sonoran Preserve, the time frame of the tax to be extended, and the operations of the Desert Discovery Center to be included in the discussion.

The Commission unanimously recommended that the acting city manager and interim city treasurer begin work immediately to close the estimated shortfall in the FY 2011/12 and to bring forth expenditure reductions throughout the year.

B. Capital Budget

Chairman Schmitt requested that "or emergency safety issues" be added to the language relating to no new projects in the Capital Improvement Plan

In response to a question by Commissioner Ecton, Mr. Worth explained that lacking a general obligation bond or other source of funding, a park that did not have a dedicated funding source

would be paid for by the General Fund. Currently there is no available General Fund to be allocated to additional projects that are not already in the CIP, therefore the CIP five-year proposal lists no new projects that would draw on the General Fund.

The Commission unanimously supported no new projects in the CIP unless they have revenue sources, or there are emergency or safety issues.

The Commission unanimously supported closing annual CIP projects and old YXXXX Centers and completed projects with unspent balances totaling \$1.7 M.

In response to a question by Commissioner Berlese, Mr. Worth explained that the public art ordinance requires that 1% of the budgeted amount for individual capital projects be set aside for public art. The art on Indian Bend and at the new public safety complex on McKellips were funded by non-general fund sources, primarily by Bond 2000 proceeds and transportation.

Commissioner Berlese suggested proposing to Council that the ordinance be modified to provide flexibility not to fund art projects. He suggested suspending the requirement temporarily because there is currently not a need for art projects and the money would be better used to fund transportation.

Mr. Worth explained that public art is not installed for every capital project. The Public Art Board goes through a specific process to identify projects and public art opportunities. The ordinance establishes the goal but does have flexibility; not all projects have a public art component.

Commissioner Ecton noted that public art is the purview of the Scottsdale Public Arts Board.

The Commission unanimously supported moving operating projects with non-capital requirements to the operating fund totaling \$3.8 M in General/Transportation Funds to comply with accounting standards.

The Commission in the majority (Martha Ecton dissenting) supported considering as part of the FY 11/12 budget balancing strategies suspending or modifying the requirement to “expend an amount equal to one percent of the city council approved budget for each capital improvement project for the commission and acquisition of public art,” and to coordinate that discussion with the Scottsdale Public Art Board.

C. Revenue Forecasts, Taxes and Fees

The Commission unanimously supported the 2.5% increase in water rates, 3.0% increase in sewer rates, and no increase in solid waste rates, including a 5% decrease in monthly base water fee, noting this is an average total increase of 2.1% or \$1.65 a month to a typical residential utility bill.

The Commission unanimously supported the forecast assumptions including a 2% increase in sales tax revenues.

Chairman Schmitt commented that the issue of charging fares for neighborhood and downtown trolleys is already being looked at.

D. Financial Policies

Mr. Smith recalled an earlier discussion where he recapped outstanding financial policies and the recommendation was made to postpone any changes to the financial policy until the fall because of potential impacts on the current budget considerations.

The Commission unanimously supported making no changes at this time to the financial policies, and schedule a comprehensive review by the commission of all financial policies in the fall, as recommended by the interim city treasurer.

E. Other Recommendations

The Commission unanimously recommended that staff release next year's proposed budget on March 1, 2011 to allow an additional month for review by the Commission.

Commissioner Berlese suggested adding workload indicators to the recommendation.

The Commission unanimously recommended staff include in the 2011/12 proposed budget the following information: performance measures, including workload indicators, for each division, and organization charts for divisions that show staffing levels and reporting relationships.

6. Discussion and possible action on agenda and meeting time/date for next meeting

Chairman Schmitt agreed that with the completion of the budget recommendations there was no need to hold the April 26, 2010 meeting.

Commissioner Borowsky mentioned that the State has proposed a 1% sales tax increase. Scottsdale's sales tax is 1.65%, which is one of the lowest in the State. He suggested consideration of a sales tax increase. Mr. Richert said that the discussion could be included in the list of issues for the 2011/12 budget. He noted that Scottsdale has had the opportunity to grow faster than most other parts of the Valley and is continuing to have new operations that will potentially provide the ability to work without placing additional tax on the community. Mr. Stockwell noted that Tempe and Gilbert will decide on their proposed tax increases on May 18th.

Chairman Schmitt agreed that other options should be considered before placing an additional tax on the citizens.

Mr. Stockwell explained the anticipations for the City Council Meeting scheduled for May 4th. As was done last year, the Chairman will make a presentation and each Commissioner will be asked if they have additional comments. There could be dialogue between the Commission and Council, following comments. Staff will post a quorum notice for the night of the meeting.

Commissioner Berlese recalled the City Auditor mentioning that her department was renting office space. Mr. Worth explained that a proposal is being developed to do an exchange for the purchase of the building currently being leased.

Chairman Schmitt asked for closing statements.

Commissioner Borowsky commented that the Commission has learned a great deal about what a budget means and how to go through it. He commended staff in all departments for doing an

exceptional job with their presentations and recognized the improvement in communication between the upper management.

Commissioner Reagan agreed that the presentations and communication were improved. She commented that she was disappointed that at times the discussion lost its focus on the budget process. The Budget Review Commission should be careful to avoid encroaching on the responsibilities of other commissions.

Commissioner Ecton commented that the experience has been interesting and expressed disappointment that the Commission is letting a financial hiccup possibly hurt the City in the future.

Vice-Chairman Miller felt that the Commission made responsible recommendations. He commented that asking for a \$350,000 concession out of the Preserve Funds seems reasonable, and that it is the same as 25% of the transportation shortfall. He was pleased with the results.

Commissioner Foster noted that it is unfortunate that the budget had to be confronted during a time of adversity. He felt that the recommendations would prove to provide a balance. He was pleased with the recommendations and looked forward to an interesting year.

Commissioner Berlese would have preferred to have started the budget process earlier and would have preferred if the presentations were not consolidated into two meetings. He compared the amount of information provided to the Commission this year to last years. He would have liked to have been given more data on the operations. He noted that the Commission, and he presumed the Mayor and Council, would appreciate seeing a zero based budget with performance measures and work-load indicators.

Chairman Schmitt commended staff on a good job. He noted that he would be more interested in information than data and would like the process to begin earlier next year.

Mr. Stockwell reviewed the agenda for the May 27th meeting, which included: April's financial update, property tax rates and levy discussion, and a leave policies discussion. The June 24th agenda includes: the May financial update, discussion of alternative service delivery, and a discussion of the performance management program. He suggested that the Commission plan on coming to agreement on a work plan for next year.

ADJOURNMENT

With no further business to discuss, the Budget Review Commission adjourned at 8:00 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.

Reviewed by,
Brent Stockwell, Senior Advisor

Officially approved by the Budget Review Commission on May 27, 2010.